1812

THE NATIONAL CITY BANK OF NEW YORK EST. 1812

1943

Economic Conditions Governmental Finance United States Securities

New York, January, 1943

General Business Conditions

THE year 1942 seems destined to stand in our economic history both as a year of stupendous effort and achievement in itself, and as one of preparation for even greater effort in 1943. The industries and the farms have produced much more than in any previous year, the railroads have carried more freight, and the utilities have supplied more power. Industrial production for the full year, as measured by the Federal Reserve Board's index, has been 15 per cent higher than in 1941. This gain follows increases of 27 per cent in 1941 over 1940 and 14 per cent in 1940 over 1939, making a total increase of nearly 70 per cent in three years; and the trend is still upward.

A much higher percentage of factory production has been for war purposes than in 1941, and at the year-end the share for war undoubtedly is well over half. In November armament output, according to the War Production Board's index, was more than four times that of November, 1941. Also during the year the armed forces have been expanded to an estimated seven million, and a million men are now overseas. The expenditures of the Government for war have come to $52 billions, although a goal of $40 billions, a figure generally mentioned at the beginning of the year, was regarded by many as unattainable.

The Axis countries, which have been arming many years longer than we have, will be best able to appreciate the accomplishment embodied in these figures. The war production of this country alone now equals that of all the Axis countries combined, and our civilian production is incomparably greater. Despite mistakes and confusion, this is a resounding answer to the Axis claim that cumbersomeness and inefficiency would make the war effort of the democracies ineffective.

The Pattern for 1943

During 1942, also, steps have been taken and policies laid down to make certain that the accomplishment of 1943 will leave 1942 well behind. These measures and policies establish a pattern for business and daily life which will dominate the coming year, and which probably will last for the duration. Their supreme objective is to devote to the war effort all of the nation's capacity and resources which can be so devoted, consistent with the health and efficiency of the people.

Thus the most certain prophecy that can be made for 1943 is that every American will be called upon to do more to help win the war. Many will be called into the armed forces. Others will have to pay more taxes, buy more government bonds, do more war work in factories and on farms, and go without more of the goods and services to which they have been accustomed. Business will be concentrated increasingly on the war effort; it will be subject to continuous and rigorous government regulation; and where supplies of materials, manpower or other essentials for production and distribution are insufficient for everyone civilian business and civilian consumption will be required to give way, as they are now doing, to war needs.

Simplified and standardized products will become more common. Rationing will be much more extensive, and the distributive trades will have less business to do. The work of financial institutions will be, even more than now, for war purposes, and new investments will be even more predominantly in government securities.

The end-result of these shifts and changes will be a greater production of munitions and war supplies, and stronger support for the armed forces of ourselves and our Allies. If every effort is concentrated on that objective the rewards, in winning the victory, in shortening the war, in saving lives and money, will be beyond estimation.

A "Ninety Billion Dollar Job"

Mr. Nelson, the chairman of the War Production Board, describes the war effort for 1943 as a "better than ninety billion dollar job." This means that production for war alone will

have to equal in value all the goods and services produced by the nation in its busiest years before the war. If the goal is reached the United States alone will be producing twice as much as the Axis nations, and about as much as all the rest of the world combined.

These are staggering figures, but Mr. Nelson predicts that the job will be carried through to success. Already a $70 to $75 billion job is being done, for that was the annual rate of government disbursements for war in November and December. Many of the new plants now in production are not yet in full stride, some are not yet equipped and some are still under construction. These will add their output to the present total.

The problem of keeping materials flowing smoothly into production becomes more complex as the demands of new plants are added; and shortage of raw materials or failure to have them in the places where they are most needed is now, as for some time past, the chief restraint on production. However, more industrial materials will be available for 1943, with notable increases in aluminum and magnesium and a substantial gain in steel output. The W.P.B. has reported that steel ingot producing capacity will reach some 97 million tons around mid-year, an increase of 7 million over present capacity; and output during 1943 is expected to be 90 to 92 million compared with 86 million in 1942.

Moreover, less material will be used in plant construction, releasing more for armaments. Various estimates place the probable drop in building contract awards in 1943 at 30 to 45 per cent below 1942. Already orders for fabricated structural steel have dropped sharply; the total in November was only one-third of the same month in 1941. Probably some of the machinery and equipment producers likewise may be able to turn to direct armament production; new orders for machine tools have lately fallen below shipments and there is considerable opinion that total output of machine tools in 1943 will be less than in 1942.

The Labor Supply

The second major difficulty in expanding production is that of obtaining, training and keeping the necessary labor. To enlarge the armed forces and staff the new war plants, the War Manpower Commission estimates that some five million people who customarily do not work for gain will enter the labor force, while 2,800,000 others will have to be drawn from non-war work, including many from construction. Probably, however, the problem of obtaining workers will be less troublesome than the problem of turning them into steady, efficient and reliable producers. The labor turnover is abnormally high, for men are lost to the armed forces and workers are attracted from one place to another by variations in wages and working conditions.

Meanwhile the industries make unceasing technological progress, which is of inestimable importance in reducing manpower requirements and lifting armament production. From the beginning of the war effort the industries have been learning how to make better things with less labor and materials, in a shorter time, and at lower cost. Products have been redesigned, production methods revamped, materials changed, and special machines installed, — all for the purpose of speeding operations. The General Motors Corporation recently has stated that on one type of machine gun it has doubled output per man hour, reduced the original cost by half, improved performance and durability, and saved critical materials. This is but one example of an accomplishment which virtually all the war industries share.

Chairman McNutt of the W.M.C. estimates that improved efficiency together with longer hours will supply the equivalent of 1,500,000 war workers in 1943. Not only is the war effort speeded, but in many cases the new practices and methods will be applicable to post-war products, and the reduced cost of production will provide a permanent gain for future generations.

A third factor which may limit output is the difficulty in expanding transportation continuously. The railroads have met demands upon them so far with extraordinary success, and they expect to carry successfully 10 per cent more traffic in 1943 than in 1942, but their need of rolling stock is acute.

Changes in Production Schedules

As production mounts it becomes more difficult to keep in balance, and supplies of some products or parts pile up while others of a complementary nature are relatively short. This unbalance prevents all parts of the production machine from moving forward at an equal rate and reduces the contribution to the war effort of those which have to slow down. Stockpiles of some supplies accumulate, making a cut in output desirable. Moreover, changes in design, dictated by war experience, are frequent. Changes in tactics and strategy require new weapons or shift emphasis from one weapon to another.

During the past few weeks a great deal of cancellation and modification of ordnance contracts has been going on, resulting both from the fact that reserves of certain munitions have been accumulated and from the change to the offensive in the United Nations' strategy. These changes impair the smooth rise of the production curve; they reduce output in some places, and may leave plants temporarily idle and labor unemployed. However, the war effort needs

every possible plant and all labor, and probably there will be few cases in which production is long suspended.

It will be recalled that in the Autumn of 1941 there was great fear of "priorities unemployment" during the period of conversion from civilian to war work. For some weeks a proposal for grants for relief of the expected sufferers from this conversion was warmly debated in Congress. However, the proposal died a natural death, for the conversion proceeded more smoothly and the unemployment was less, and shorter, than the pessimists had estimated.

In due course, possibly before the end of 1943, limitations of materials, labor, transportation, and perhaps fuel or power, will check the long rise in production. Plainly, however, the 1943 aggregate should exceed that of 1942 by another good margin.

With even more assurance, it can be predicted that war production will rise more than total production, and that in the aggregate less will be turned out for civilian use. The cut in production of civilian goods in 1942 has been most pronounced in the second half of the year, and the contraction of retail trade which it will eventually cause has been deferred by previous inventory accumulations. However, heavy sales, including a record holiday business, have cut into stocks. The trend of inventories in distributors' hands, calculated with allowance for seasonal influence, has been downward for some months, and latest figures indicate that they are back, or nearly so, to a normal relation with sales. This means that consumers in 1943 will be more dependent on current production, and general retail trade will be 12 per cent smaller, according to the Department of Commerce.

The Course of Prices

The course of prices in 1943 will depend chiefly upon the outcome of the Government's efforts to control them. During 1942 the price rise has been less than most observers expected. In December, 1941, the American Statistical Association invited a group of business economists to estimate where the Bureau of Labor Statistics index of wholesale prices would stand in December 1942. Without exception the estimates of these economists were higher — some much higher — than the index turned out to be; the actual level as of December 19 was 100.7 in terms of 1926 as 100. This is an increase of 7 per cent during the year and 35 per cent since the outbreak of the war.

There can be general agreement that this rise is moderate, when contrasted with the increase in demand and purchasing power over and above the increase in the supply of goods. It is substantially less than half of the rise which took place during the corresponding period of World War I. To be sure, price indexes may not be wholly representative of the true price level. They cannot take full account of deterioration in quality, of "black markets" or violations of price ceilings, or of the fact that people may be forced to turn to higher priced substitutes because accustomed goods are unavailable. Nevertheless, the evidence is that the control measures have greatly moderated the upward price trend, and that people on the whole have cooperated by saving more of their increased incomes than many observers considered likely. Individual savings have taken the form of increased bank deposits and increased holdings of currency, in addition to the more usual forms of saving. In either of these two forms they can be spent at any time and thus are a potential inflationary menace. They should be invested in war bonds and so absorbed into the Treasury for support of the war.

Despite the good showing of the indexes, price controls are having far from smooth sailing. There are two basic theories of price control, both difficult to apply effectively. One is that only selected prices should be controlled, chiefly those of the basic items important in the cost of living or the cost of the war effort; and that these controls should be applied principally at the raw material or first processing stage. This theory would place chief reliance for dealing with the inflationary danger upon other measures, such as more drastic taxation on the lower income brackets, where the greatest increase in purchasing power has occurred and where the greatest demand for consumer goods exists. It would apply restraint to the causes of changes in the general price *level,* but leave as many *individual* prices free to fluctuate as possible, so that the price system could perform its normal function of guiding productive effort, and preserving the incentive of high relative prices for goods where needs are greatest.

The difficulty with selective price control is that one control necessarily leads to another, and that when exceptions are permitted there are arguments for more exceptions. This was the reason for the adoption, after a period of trial during which the exceptions threatened to break down the entire effort, of the alternative theory, which is the placing of general ceilings on all prices. Now this program is running into some of the inevitable difficulties. These difficulties arise not only from the immensity and complexity of the effort, but from the inequities created by freezing prices as of any given time. The March ceilings froze prices that were below replacement costs as well as those that were above; they fixed distributors' margins that were inadequate as well as those that were excessive. Similarly, the ceilings placed on certain agricultural products

as of about October 1 worked injustices on processors, and unprocessed commodities for the most part continued exempt.

Modifications of Price Control

The Office of Price Administration has substituted specific dollars and cents ceilings in some cases for the individual March ceilings, and is going much further in that direction. Its new program is to fix specific prices at the grower or processing level, and to fix specific markups for various types of distributors. In making this change and other adjustments, the general effect is to raise prices. To a great extent this rise is being permitted as a considered decision, taken for the purpose of covering higher costs and maintaining or stimulating production. Thus it is in a sense a reversion to the theory that the normal function of prices in guiding production should be preserved as far as is compatible with anti-inflationary policy. Another decision reported during the past month, to restrict the use of subsidies as an alternative to higher markets, also signifies a greater reliance upon the price system.

The arguments for more liberal ceilings in many cases were compelling. The situation has developed as expected by many experienced observers, who all along had believed that the rigid ceilings fixed would upset supply and demand relationships to such an extent that production and distribution would be impaired. Their view was that the essential was to keep production going, that exceptions to and adjustments in the ceilings would be necessary, and that the best to be expected was to slow down the price rise and keep it within moderate proportions. On the other hand, the danger in upward adjustments and exceptions is that they become the rule.

One of the major uncertainties for 1943 is whether the modifications which permit price increases will keep the cost of living rising, and if so how far it can rise without starting a new cycle of wage demands. The extension of rationing under the "point system," which will take effect in coming weeks in canned and dried foods, meats and probably some dairy products, will suppress demand, and thus aid the price control effort.

Probably the basic lesson which the American people are learning from the price control and rationing programs is their complexity, their cumbersomeness in administration, their inevitable inequities even though in the broader sense they are correcting inequities, and their unsuitability for use except in emergency. This is an emergency, and a grave one, and the vast majority of people will give their loyal support and cooperation. However, many are doubtless more consciously aware than ever before of the efficiency and benefits of the free enterprise system of production and distribution, which made the things that people wanted readily available to them even though they had to be brought from the ends of the earth, — and this without overhead authority, central planning, or consumer regimentation, but through the individual planning of the producers and distributors concerned, actuated by personal initiative and the deep-seated desire to work and earn their living.

Success of the Victory Loan

The Victory loan campaign last month was such an outstanding success that the original Treasury goal of $9 billions was later raised to $11 billions. Even this was largely exceeded and subscriptions for the full month of December, including the continuing sales of savings bonds and tax notes, are estimated at $12,300 millions. The total is far the largest ever raised in any country during a comparable period, and contrasts with the previous record of $6,993,000,000 for the United States fourth Liberty loan issue in 1918, on the basis of course of a much smaller national income.

Last month's campaign represented the first joint organization in this war of the banking, investment and insurance groups throughout the country for a selling effort. On previous Treasury offerings the amounts to be raised were much smaller, the number of issues was fewer, and subscription books (except for the "tap" issues) were open for one or two days. In the Victory loan, however, there was a "market basket" variety of offerings to reach everybody, the subscription books were kept open much longer, and a national selling organization was created to do the big job. Credit goes to the national organization set up by the Treasury and Federal Reserve Banks and to the many different institutions and individuals who volunteered their time and services—including the banks, security dealers and brokers, insurance companies, savings banks and others —and who together were instrumental in the success of the undertaking.

Secretary Morgenthau, in a message to all members of the Victory Fund Organization, said that "your earnest and able response to this call of your country is an inspiring example for every one on the home front."

Sources of the Funds

Shown below is an estimate of the funds raised on different issues from both non-banking and

Estimated Allotments in U. S. Victory Bond Drive. Nov. 30 to Dec. 31, 1942
(In Millions of Dollars)

	Total U. S.			New York District		
Issues	Non-Bkg. Sources	Banking Sources	Total	Non-Bkg. Sources	Banking Sources	Total
Treasury bills	$ —	$ 900	$ 900	$ —	$ 520	$ 520
⅞% Certificates	1,680	2,110	3,790	1,060	750	1,810
1¾% Treasury bonds	1,000	2,060	3,060	640	650	1,290
2½% Victory bonds	2,600	—	2,600	1,665	—	1,665
Tax notes	1,100	—	1,100	420	—	420
Savings bonds (E, F & G)	850	—	850	160	—	160
Total	$7,230	$5,070	$12,300	$3,945	$1,920	$5,865

banking sources, for the country as a whole and for the New York Federal Reserve district.

Of the total money raised over the country, over $7 billions, or 59 per cent, came from non-banking sources. Of this amount, $3.6 billions, or practically half, represented sales of the 5½-year and 26-year bonds, large portions of which were taken by the insurance companies. Corporations were heavy subscribers to the short-term certificates and to the tax notes. About 41 per cent of the total funds raised was supplied by the commercial banks, largely on short bonds and certificates to which bank subscriptions were limited by the terms of the offering to $2 billions or thereabouts of each.

In addition to the amounts subscribed for, banks purchased substantial quantities of the new certificates and 1¾ per cent bonds after the allotments had been made. Besides commercial bank purchases, the Federal Reserve Banks bought over $1 billion net of government securities during December, replenishing bank reserves and aiding subscribers to realize cash on older issues for the purchase of new issues.

The summary given above shows that subscriptions in the New York district (after deduction of subscriptions to be credited to other districts) amounted to 48 per cent of the total for the country, including 55 per cent of the total from non-banking sources and 38 per cent of the total from banking sources. While the high percentages for New York reflect credit on the sales organization and effort in the district, they emphasize again the difficulty that has prevailed right along of getting a broad distribution of the new issues throughout the country, particularly in those sections which are experiencing a rapid growth of deposits as a result of government expenditures at defense plants and cantonments. The fact that almost half of the total money raised in the United States was accounted for by the 60,000 corporate and individual subscribers in the New York district reveals how narrow the distribution really was.

Experience during the campaign indicated a preference on the part of many investors for the long-term marketable bonds over the Series F and G savings bonds, despite the latter's provision for redemption at the holder's option at a fixed schedule of prices. Victory Fund workers reported that it is easier in many cases to sell the 26-year 2½s than to explain the special features of the savings bonds.

The Task Ahead

Satisfaction over the remarkable showing of this bond drive is necessarily tempered by the realization that subscriptions have come to a predominant extent from financial and business organizations and have represented "skimming the cream" from such reservoirs of available funds. All of these institutions have exerted themselves to make the campaign a success, and many have liquidated holdings of other securities and thereby obtained funds of a non-recurring type in order to augment their purchases of U. S. issues. Many trusts and investment funds made purchases during the drive last month that will cover their needs for considerable periods ahead. In the case of tax savings notes, corporations, which are the principal buyers, will at some point reach a condition where they can do little more than turn over their holdings. For these reasons, the raising of additional billions in subsequent campaigns will present even more of a challenge than has the task thus far.

The fact that the subscriptions last month came mainly from institutions makes clear that the next campaign must cut more broadly and deeply into the great mass of individual savings in the form of idle bank deposits and currency throughout the country. The purchasing power of only a minor portion of the swelling national income was loaned by individuals to their government last month. While the purchase of savings bonds amounted to over $9.6 billions in the thirteen months since December 1, 1941, or an average of about $740 millions per month, this is but a small fraction of national income or of war expenditures during the same period. Monthly redemption of savings bonds, including all series from 1935 through 1942, has risen from $16 millions in December 1941 to over $50 millions in December 1942, but is still small in relation to the total outstanding.

In looking to the job ahead, the budget message to be issued shortly by the President will provide new estimates of Treasury financial requirements for the balance of this fiscal year, as well as the first estimates for the fiscal year 1944. As the first half of this fiscal year closes, commercial bank holdings of government securities are probably in the neighborhood of $40 billions, an increase of $14 billions during the period. In addition, the Reserve Banks have increased their holdings by $2.9 billions. Thus, the combined increase of commercial bank and Reserve Bank holdings has been at the rate of almost $34 billions per year. This is far too great a reliance upon bank credit.

Lend-Lease Operations and Wartime Foreign Trade

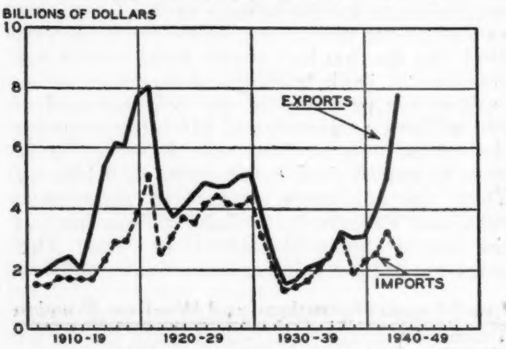
The progress made in turning the United States into the "arsenal of democracy" is revealed in the latest figures of our exports—both through their tremendous growth and their changing nature. In aggregate value, exports in recent months have been at a rate equalling or exceeding the record totals made just after the last war; and in quantity those records, set in a period when prices were much higher, have been left far behind. Within a year and a half, lend-lease shipments have in-

creased to a figure more than double our total exports before the war began. Private exports, on the other hand, for some months have been below the pre-war level. Lend-lease shipments now represent three-fourths of our total exports.

With the United Nations on the offensive, a further increase in lend-lease shipments is certain. Not only must the flow of military supplies and food for armies be expanded and quickened, but people in areas won from the enemy will need food, clothing and other essentials to relieve distress and enable them to help the war effort. French North Africa, stripped of food by the Axis Powers, will need supplies at least until new crops are harvested late in the Spring. Equally, French Africa needs textiles, shoes and other articles formerly supplied from France. It has been short of these things since 1940. Fuel will be needed to keep its economic life going.

$8 Billions of Exports

On the basis of figures for the first eleven months, the value of our exports for the year 1942 will probably fall not far short of the $8 billion mark. As will be seen from the first chart, our exports during World War I exceeded $6 billions in both 1917 and 1918. In the following year, with reconstruction creating heavy demands for food and raw materials and prices advancing rapidly, they rose to about $7¾ billions, and in 1920 the high mark was established with exports reaching over $8 billions. None of these figures include the food and equipment sent to our armies abroad, and for building and equipping our new bases.



U. S. Foreign Trade 1910-1942

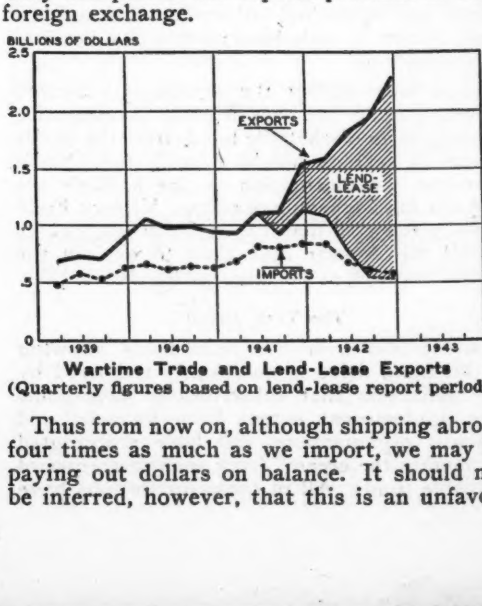
Even in dollars the 1920 record would have been broken in 1942 had more shipping tonnage been available. Some 10 per cent of the lend-lease goods transferred to various United Nations has remained unexported, and shipments for private account have necessarily been even more restricted.

The total quantity of exports is not officially reported and cannot be precisely estimated. However, the fact that current export prices, according to a Department of Commerce index, are some 45 per cent lower than prices in 1920, the previous record year, indicates that the physical volume is far greater than ever before in our history.

In contrast with the big expansion in exports, the value of imports declined in 1942 to around $2½ billions, which is about 22 per cent below the 1941 level. Considering the intervening rise of prices, the physical volume of imports in 1942 was probably down about one-third from 1941. Much of the decline in both value and volume may be explained by our present inability to import rubber, tin, copra and vegetable oils from Southeastern Asia, as well as by restrictions on imports of such bulky commodities as cocoa, coffee, and oilseeds.

Exports Other Than Lend-Lease Below Imports

The sharply divergent trend of exports and imports produced in 1942 a record export trade balance, which on the basis of eleven months' figures may be estimated at about $5¼ billions; the previous high mark was the 1919 export trade balance of over $4 billions. The huge 1942 trade balance, however, is largely represented by lend-lease exports. Hence, it lacks the significance of a normal or peace-time "favorable balance," for it has not created equivalent credit balances abroad of the usual sort. In fact, it appears that during the last two lend-lease report periods, which include six months ended November 1942, exports of goods other than lend-lease dropped slightly below the level of imports. As will be seen from the accompanying chart, exports other than lend-lease, including shipments for private account and deliveries being currently paid for by our Allies, averaged less than $600 million in the last two quarterly report periods. Only this part of our exports provides us with foreign exchange.



Wartime Trade and Lend-Lease Exports
(Quarterly figures based on lend-lease report periods.)

Thus from now on, although shipping abroad four times as much as we import, we may be paying out dollars on balance. It should not be inferred, however, that this is an unfavor-

able development. Our unfavorable trade balance will be chiefly with Latin America, where at present we buy the bulk of our imported raw materials. For the first half of 1942 the twenty Latin American republics had a surplus of some $240 millions in their merchandise, gold and silver trade with us, compared with $180 millions in the same period in 1941. From all indications their trade with Great Britain also showed a sizeable export balance. Currencies of the Latin American countries have been strong against the dollar, and they are building up reserves of dollars which will give them added purchasing power here, when they can buy again. Meanwhile the commodities imported are vital to the war effort.

In the meantime, too, lend-lease has ceased to be the wholly one-sided affair that it appeared to be in the early stages. With more and more troops going abroad, we are making increasing use of the reciprocal aid provisions of lend-lease agreements. We quote from the President's Sixth Report on lend-lease:

> **Under reciprocal lend-lease General MacArthur's men are receiving munitions, uniforms, food and shelter from the Australians. Similarly, United States forces are receiving aid from New Zealand. The fighting French in Equatorial Africa and New Caledonia are furnishing us with materials, facilities and service. In Great Britain we are receiving a formidable amount of munitions and supplies. Guns and camps, aircraft and military stores have been turned over to our troops. In July alone, a quarter of a million British workmen were engaged on construction for the American Army.**

It is of little use to speculate at this stage as to how the lend-lease indebtedness will be eventually settled. The length of the war and the extent of economic disturbance created by the war will undoubtedly be important factors. The Lend-Lease Act provides only that "the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory." The Lend-Lease Agreements concluded with various countries leave the question open, but lay down wise principles such as that "the terms and conditions shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations," including "the elimination of all forms of discriminatory treatment in international commerce, and the reduction of tariffs and other trade barriers." These are broad and sound principles on which a settlement of enduring benefit may be reached, given wise statesmanship, patience and understanding.

Changing Aspect of Lend-Lease Aid

Every quarterly lend-lease report shows not only a consistent increase but also the changing nature of lend-lease aid. As new plants began to pour out fighting weapons, the proportion of goods to services started to rise. During the first few months, goods accounted for less than half of lend-lease aid. Currently, as shown by the table below, close to four-fifths of lend-lease consists of goods, transferred at the annual rate of about $8 billions. The remaining $2 billions represent the value of services which include supplying and repairing warships and merchant ships of our Allies, rental of ships necessary for the carrying of goods to lend-lease countries, and the cost of new factory and shipyard facilities in this country insofar as used for production of lend-lease goods.

Lend-Lease Aid
(In Millions of Dollars)

Goods	Mar. '41 to Feb. '42	Mar. to May '42	June to Aug. '42	Sept. to Nov. '42	Mar. '41 to Nov. '42
Goods transferred or awaiting transfer	1,486	1,346	1,220	1,802	5,854
(Actually exported)a	(1,100)	(1,038)	(1,387)	(1,725)c	(5,250)c
Services					
(a) Servicing and repairing of ships in U.S.	126	31	(b)	(b)	(b)
(b) Production facilities	169	114			
(c) Rental of ships, ferrying of aircraft, etc.	268	116			
Total Services	563	261	253	565	1,642
Total Goods Transferred and Services Rendered	2,049	1,607	1,473	2,367	7,496

(a) Difference between the figures for goods transferred and those for goods actually exported is principally accounted for by an inventory at the points of exports. (b) Not available at present. (c) Estimated on basis of statement that about 10 per cent of goods transferred is still in this country awaiting shipment.

The type of goods exported under lend-lease has also changed. Last Fall, military items comprised only about one-third of the total, the major part consisting of foodstuffs and industrial raw materials. By October 1942, the exports of military items accounted for 56 per cent. But while the percentage of industrial materials and foodstuffs in the total declined, the actual amounts increased materially.

Still another change took place in the direction of the flow of lend-lease aid. During the first year, Great Britain was the chief recipient. But the last three quarters saw a big expansion of our aid to Russia, Africa, and the Middle and Far East, despite transport difficulties. Currently, lend-lease exports are going to Great Britain at an annual rate of $2½ billions, while Africa, Australia and China are now receiving goods at the rate of about $2¼ billions a year and Soviet Russia almost $1½ billion a year.

However, the dollar value is merely used to measure the scope of lend-lease aid. As the President remarked, the dollar sign has been taken off, and it is the goods and services that are being supplied. The war is conducted by all the United Nations together. Each is pledged by the agreement signed January 1, 1942, to employ its full resources, men, supplies, ships and services. Since our resources are

greatest, we supply the largest share of the joint requirements. The North African campaign has brought home, more effectively than anything else could have done, the lesson that the war is a joint enterprise, requiring the pooling of all available resources. For no single country could have spared at this time all the combat forces, equipment and shipping tonnage required for the task.

The Beveridge Report

On December 1 one of the first concrete programs looking towards the post-war world appeared in the so-called Beveridge report to the British Parliament proposing sweeping reform and extension of the British social security system. Referred to as a program of security literally "from the cradle to the grave", the report — a sizable document of some 300 pages, including appendices — has excited widespread popular interest in both Great Britain and this country.

The author of the report, Sir William Beveridge, is one of Britain's most widely known economists and educators. He is the author of numerous books on social and industrial problems, he has served on various important government commissions, and for many years was head of the School of Economics of London University. His report is the outgrowth of a study undertaken eighteen months ago at the request of the government.

Despite the scope and heavy cost of the changes proposed, the report has had a favorable reception from widely different groups in England. Not everyone, of course, agrees with all the specific proposals. Some regard the plan as going too far; others as not going far enough. It is certain to be keenly debated, and if adopted doubtless will undergo many changes. At the same time there is general recognition that here is a carefully worked out program looking towards an ideal that appeals to everyone — security against poverty and want. This, and the standing of the author, assure it thorough study and discussion.

What the Program Calls For

Briefly stated, what the Beveridge plan proposes is to assure to everyone means sufficient to take care of basic needs. Quoting social surveys as authority, the report states that from three-quarters to five-sixths of all want results from interruption or loss of earning power, due to such emergencies and vicissitudes as unemployment, sickness, and old age. Practically all of the remaining want is due to income being too small in relation to size of the family. The Beveridge plan aims to provide benefits and allowances adequate to maintain at least a subsistence standard of living under such conditions.

Although Great Britain has been in the lead among nations developing social legislation, the report finds the system inadequate, both as to coverage and amount of benefits. Moreover, having grown up piece-meal over a long period of years, the system, contends the report, lacks coordination, is cumbersome, frequently illogical, and unnecessarily expensive for what it provides.

Sir William proposes a thorough overhauling, centralization, and expansion of the whole system. Administration would be centered in a Ministry of Social Security, to which each insured person would make a single weekly contribution. The system is compulsory, and covers all citizens without upper income limit, but has regard to their different ways of life. It divides the population into four main classes of working age and two others below and above working age, as follows:

Class 1 — Employes, that is, persons whose normal occupation is employment under contract service.

Class 2 — Other gainfully employed, including employers, traders, and independent workers of all kinds.

Class 3 — Housewives, that is, married women of working age.

Class 4 — Others of working age not gainfully employed.

Class 5 — Below working age.

Class 6 — Retired above working age.

Of the two classes outside the working ages, Class 6 would receive retirement pensions and Class 5 would be covered by children's allowances. All classes would be covered for comprehensive medical treatment and rehabilitation and for funeral expenses up to £20.

In the four working age groups, persons in Class 1 would receive benefit for unemployment and disability, pension on retirement, medical treatment and funeral expenses. Class 2 would receive all these except unemployment benefit and disability benefit during the first 13 weeks of disability. Class 4 would get the same except unemployment and disability benefit. However, as substitute for unemployment benefit, training benefits would be available to persons in all classes other than Class 1, to assist them to new livelihoods if their present ones fail.

All persons in Classes 1, 2 or 4 would pay regularly a single security contribution, with —in Class 1—the employer also contributing.

For Class 3 — housewives — the plan proposes maternity grants and provision for widowhood and separation. In case of housewives taking paid work there would be in addition to the maternity grant a maternity benefit for thirteen weeks to enable them to give up working before and after childbirth.

Except in the case of pensions during a 20-year transitional period, all benefit payments would be made as of right, and not subject to the so-called "means test", or proof of inadequate resources. Unemployment benefits would continue at the same rate as long as unem-

ployment lasts, though normally subject to a condition of attendance at a work or training center after a certain period. Disability payments would continue so long as disability lasts or until replaced by pension, subject to acceptance of medical treatment or vocational training. Pensions might be claimed at the age of 65 for men and 60 for women, with the rate increasing as retirement is postponed.

The scheme for unemployment insurance assumes the prevention in the future of mass unemployment and unemployment prolonged year after year.

The Question of Cost

Beveridge takes 1945 as the first year of operation of the plan and computes the cost in that year at £697 millions ($2,788 millions at $4 to the £), of which the Government would provide about half out of the general revenues, insured persons about 28 per cent, and employers about 20 per cent.

This means about doubling the amount actually spent in 1938-39 (not including private medical expenditure and various forms of voluntary insurance now included in the plan), and an increase of about 60 per cent over the estimated cost of the present social services in 1945. For the State alone the initial cost is estimated at £86 millions a year more than that involved in the existing schemes.

As time goes on and the pension plan becomes fully operative the total cost would increase, reaching an estimated £858 millions ($3,432 millions) in 1965.

In judging these figures it is well to bear in mind that Great Britain has less than a third of the population of this country. On a population basis an expenditure of £697 millions over there would be equivalent to over $8 billions here, while £858 millions there would be equivalent to over $10 billions here.

Can Britain afford this heavy load, facing as she does the prospect of an enormous war debt, reduction of overseas investments and other sources of earnings abroad, and likelihood of many other difficult readjustments?

Sir William believes that she can.

As evidence he cites, first, results of social surveys as showing that even before the war the total resources of the community were sufficient to make want needless. While, in many towns surveyed, substantial percentages of the families examined had less than the bare minimum for subsistence, the great bulk of them had substantially more than the minimum. For example, in one of the poorer sections of East London, it was found in 1929 that while one family in every nine had income below the minimum and was in want, the total income surplus of working-class families above the minimum was more than thirty times the total deficiency of those below it. From which Sir William concludes:

> **Want could have been abolished before the present war by a redistribution of income within the wage-earning class, without touching any of the wealthier classes. This is not said to suggest that redistribution of income should be confined to the wage-earning classes; still less is it said to suggest that men should be content with avoidance of want, with subsistence incomes. It is said simply as the most convincing demonstration that abolition of want just before the war was easily within the economic resources of the community; want was a needless scandal due to not taking the trouble to prevent it.**

Secondly, Sir William points to the great rise of real wages and of the standard of living generally in England from 1900 to the outbreak of the present war. Emphasizing that not even the destruction and dislocations of World War I had been able to bring this progress to an end, he saw in this a hopeful augury for the future. "To suppose that the difficulties cannot be overcome, that power of adjustment has deserted the British people, that technical advance has ended or can end, that the British of the future must be permanently poor because they will have spent their father's savings, is," he said, "defeatism without reason and against reason."

And finally, Sir William argues, "unemployment and disability are already being paid for unconsciously; it is no addition to the burden on the community to provide for them consciously." In fact, "unified social insurance will eliminate a good deal of waste inherent in present methods."

Analysis of the Argument

As Sir William states, the arguments given above are in terms "not of money, but of standard of living and real wages." There is still the problem of raising the money. Sir William deems this "secondary", but acknowledges that "it is a real problem." "The fact," he says, "that the whole burden, properly distributed, could be borne does not mean that it can be borne unless it is distributed wisely."

But this is precisely the question. How can we know what is a "wise distribution" of the burden, or be assured that it is politically feasible if we knew it? Few subjects are more controversial than the levying of taxes, as we in this country have good reason to know after eight months of wrangling and debate over a tax bill that everyone concedes is far from perfect. And yet no question is more vital to the march of economic progress than the question of how taxes are levied.

Sir William states that wise distribution of the burden is an object of the plan, and argues:

(a) that the additional expense to the Exchequer will be only £86 millions in the first year, rising gradually thereafter,

(b) that insured persons, through centralization and economy of administration, will pay less than they now pay for equivalent services,

(c) that while employers will have higher labor costs they will be repaid by the greater efficiency and contentment of the workers.

These arguments, though pertinent, will hardly in themselves carry conviction to those who are concerned over the question of costs. The additional £86 millions to the budget in the first year of the plan is only part of the total additional cost for that year, which is estimated at £265 millions including direct contributions of insured persons and employers; and the total will mount each year. These additional costs will come on top of a budget and tax burden already staggeringly large. At the present time the British Government debt is probably about £16¼ billions, comparable on a population basis and at a $4 exchange rate to nearly $200 billions for this country, and the total is still rising. The tripartite distribution of the burden between the Government, the insured, and the employer is to a certain extent an illusion; for the Government has no resources of its own and whatever it distributes falls back, in the final analysis, on the taxpayer, including the latter two groups.

As for the effect on British industrial costs, there will be many who will feel that Sir William has dismissed this important question much too lightly, especially in view of Britain's dependence upon overseas trade and ability to meet overseas competition.

Perhaps the greatest uncertainty of all relates to the accuracy of the cost estimates themselves, which are bound to contain large possibilities for error. Experience of private insurance companies with disability insurance, for example, has been so unfortunate that most companies in this country have discontinued writing it. Even more questionable are the estimates for cost of unemployment insurance which assume that unemployment can be kept under close control in the future. This is a large assumption. In a public address in December, Sir William frankly admitted that he did not know how it could be done.

In talking of abolishing want we should not overlook the fact that the enterprise system has been making steady progress in this direction ever since the industrial revolution introduced effective tools and methods of production. While the ideal of complete freedom from want has never been reached, enormous strides have been made, and have embraced all classes of people. The report recites impressive evidence of the progress in England in the past thirty or forty years.

In 1929 the average workingman in London could buy a third more of articles of consumption in return for an hour's less work per day than he could buy forty years before. The standard of living of the work people of York in 1936 was 30 per cent higher than in 1899.

This improvement in economic conditions, says Sir William, was reflected in an improvement in physical conditions. "In London, the crude death rate fell from 18.6 per thousand in 1900 to 11.4 in 1935, and the infant mortality rate fell from 159 to 58 per thousand. In York the infant mortality rate fell from 161 per thousand in 1899 to 55 in 1936; in the same period nearly 2 inches was added to the height of school children and nearly 5 pounds to their weight." And this improvement, he says, was typical of the country generally.

Self-Help vs. Government Benefits

The problem might be clearer if we get away from the abstractions of huge figures and masses of people and illustrate the principles involved by taking the case of a single small community in which there are two kinds of people: those who are independent and self-supporting by virtue of being industrious, competent, and thrifty, and those who for a variety of reasons—age, physical disability, incompetence, or just plain wastefulness and laziness—are dependent upon the others.

The people who live in this community know very well who is deserving and who is not. They know those who are doing their best to help themselves and those who are content to lean upon others. They know which ones can be counted upon to take a job when it is offered and try to do it well, and which ones will avoid work if they can and loaf on the job if they have one. They know those who are really handicapped physically, and those who are cherishing and capitalizing their ailments. They know the conditions of life in the locality, and hence just how much help is needed to keep people from want without at the same time destroying the incentive for them to help themselves. Through the close community contact the persons aided can usually find ways of contributing something in return for their maintenance—if not regular work, at least the doing of odd jobs, and, in the case of family relationships, helping in the work about the house, tending a garden, looking after the children, etc., services which often effect substantial savings in family cash outlays.

Now let us suppose that the Government passes a law like the Beveridge proposal *requiring* this community in effect to support its dependents under a fixed schedule of rates and set conditions of payments. What happens? The help given is no longer within the discretion of people who know best the local conditions and the human elements involved. The scale and conditions of aid, being matters of law, almost inevitably lack the necessary elasticity of application—they are likely to be too generous for some communities and too restricted for others. But most important of all, the payments tend to be regarded by the bene-

ficiaries as without obligation on their part and as something to which they are entitled. One group—government employes—supervises the payments; another group—the great body of taxpayers—bears the cost. It is unhappily true that under these circumstances too many individuals would be discouraged from putting forth their best efforts, and many even would simply sit back and take what was coming to them without trying to help themselves. Such a system encourages this.

The foregoing is not to say that outside aid to communities struggling with relief problems may not at times be necessary, or to imply that the problem of relief is the same in the large cities as in the towns and villages. At the same time the illustration does emphasize difficulties and dangers, in connection with payment of government benefits, that need taking account of, as Britain found in her experience with the dole.

Balancing the Human Values

The other question about these payments has to do with the effect on the enterprising and energetic members of the community of adding this further expense to the already enormously expanded costs of government. For them it may mean a denial of many advantages which they had counted upon as the reward of their industry and frugality. For many such families it will mean that the wives will have to work harder, the ownership of the home will be postponed, and the savings that might establish an independent business will be restricted. The education of the children will be shortened, and it may mean such families will have fewer children than otherwise.

At the same time those receiving the payments are placed in a more favorable position. They receive benefits and advantages beyond what they have earned.

How far is it possible to go in thus penalizing the strong in the community for the benefit of the weak without discouraging ambition in both, stifling progress, and hurting everyone? What is the long-term effect upon the population if the able and enterprising are penalized with respect to the bearing of children, while the shiftless or incompetent are encouraged to have larger families?

Although the Beveridge report emphasizes the need for keeping benefit payments within limits "not to stifle incentive, opportunity, responsibility," the trouble is that the setting of limits for public aid is necessarily in the hands of legislative bodies subject to constant political pressure to liberalize and expand payments. Examples are the soldiers' bonus after the last war, and the repeated grants of additional pension benefits to Civil and Spanish-American war veterans and their widows and children. The dangers are illustrated also by the widespread public following for such schemes as the Townsend plan for national old-age pensions, and by the experience of our State old-age pension systems, the terms for which have been made steadily more generous to the point in some cases affecting the stability of State finances.

In all these matters we are dealing with imponderables, with the operation of human aspirations and desires, as well as with the satisfaction of human physical needs, and it is extraordinarily difficult to predict the results of any program.

The essential point, however, is that no program of this sort can be carried through without cost, and that cost will fall on the abler and more enterprising members of the community—those who furnish the leadership for progress and make up the backbone of the country.

The cost of a plan of such magnitude cannot be borne by the rich alone. They do not have enough money and they are bound to be taxed up to the limit in any event. It will have to be spread over the entire population, with the great bulk of it falling upon middle class families and the most industrious, competent and self-reliant workingmen's families.

The problem is to weigh the human costs against the human benefits of any plan which is adopted. There seems no question that this passing of judgment will lead us to a continued program of amelioration of distress and insecurity, but the wise course would appear to be to make progress one step at a time, observing the results as we go and trying to observe *all* the results rather than those which are superficially apparent.

The real problem of abolishing want is not in finding ways to divide up what we have, but in creating more to divide—of continuing into the future the long record of progress made in the past. This means making sure that our system provides the incentive for millions of persons to strive diligently at their tasks and for those with capacity for leadership to go ahead with new projects and seek new discoveries that will employ labor, increase production, and add to the sum total of goods and services that determine the standard of living. If we in this country can do this, it will be possible for us, with our huge resources, the demonstrated genius of our industrial leadership, and the effectiveness of our labor force, to establish and reach a goal of general well-being in this country which will not only include the minimum of security, but provide larger opportunities for all.

Printed in U. S. A.

ed in U. S. A.